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Peru

Grain and Feed Annual

Annual

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Report Highlights:
U.S. wheat exports captures 44 percent of the 1.67 MMT Peruvian market in CY 2010. Due to the TRQ negotiated under the U.S.-Peru Trade Promotion Agreement, U.S. corn exports to Peru continue increasing in CY 2010. Peru also imported its first shipment of DDGS for poultry feed.

Executive Summary:

Wheat production in MY 2010 (July/June) is forecast at 230,000 MT, a slight increase from the 225,000 MT produced in the previous year. Crop area for MY 2011 is forecast to remain at 172,000 hectares. Peruvian wheat imports in CY 2010 totaled 1.67 MMT. The U.S. was the lead exporter with 44 percent of the market share. Corn production in Peru is forecast at 1.67 MMT for MY 2010 (October/September), a slight increase compared to the 1.655 MT produced the previous year. Peru imported 1.9 MMT in CY 2010, U.S. corn exports were 626,428 MT in CY 2010, a significant increase from the historic 280,000 MT due to the duty free TRQ granted in the U.S. – Peru Trade Promotion Agreement. Rice production for CY 2011 is forecast to decrease 9 percent to 1.68 MMT (milled basis). Lack of rain in northern Peru delayed the planting season causing total harvested area to fall from 381,000 hectares to 350,000 hectares.

Commodities:

Wheat

Production:

Wheat Peru	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	170	170	145	172		172
Beginning Stocks	171	220	362	217		212
Production	220	225	185	230		230
MY Imports	1,703	1,582	1,600	1,610		1,630
TY Imports	1,703	1,582	1,600	1,610		1,630
TY Imp. from U.S.	576	506	0	600		650
Total Supply	2,094	2,027	2,147	2,057		2,072
MY Exports	47	52	50	55		55
TY Exports	47	52	50	55		55
Feed and Residual	60	60	60	60		60
FSI Consumption	1,625	1,698	1,650	1,730		1,750
Total Consumption	1,685	1,758	1,710	1,790		1,810
Ending Stocks	362	217	387	212		207
Total Distribution	2,094	2,027	2,147	2,057		2,072
1000 HA, 1000 MT						

Wheat production in MY 2010 (July/June) is forecast at 230,000 MT, a slight increase from the 225,000 MT produced in the previous year. Wheat is only a minor crop in Peru and is grown mostly in the southern highlands of the Andes (between 2,800 and 3,500 meters above sea level). Wheat producers are usually poor and apply rudimentary cultural practices. Most of the wheat produced in Peru is soft wheat that is consumed directly in soups and purees. This type of wheat is not suitable for milling.

Crop area for MY 2011 is forecast to remain at 172,000 hectares. Wheat area in Peru varies significantly from year to year depending on prices, profit expectations, and conditions of alternative crops such as barley and oats. Average yields in CY 2010 were 1.33 MT per hectare.

Peru's largest wheat miller, Alicorp, has established a program to encourage producers to grow durum wheat for their pasta plant in Arequipa (about 1,000 kilometers south of Lima). Currently, they are producing around 11,000 MT but expect to reach 25,000 MT in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts production in advance.

Consumption:

Bread consumption in Peru continues to be one of the smallest in the region, per capita consumption is 28 kilograms per annum compared to 37 kilograms in Ecuador or 95 in Chile. Most bread is purchased fresh in bakeries, and only 250 grams of bread per year are consumed in loaves, which is a two-fold increase over the last seven years. At 10 kilograms per capita, Peru continues to be the second largest pasta consumer in South America. Lima accounts for half of the pasta consumption in Peru, but growth of pasta consumption in the provinces is increasing at a faster rate. Peruvian cracker and cookie consumption is still very low, around 70,000 MT per year and worth about $100 million.

The wheat milling industry in Peru is highly concentrated. Of the 23 mills in the country, the largest one accounts for over 60 percent of total wheat processed, and the top four mills are responsible for about 85 percent of the wheat milled in the country. While Argentina has over 200 mills for 33 million people, Peru only has 23 for 28 million people. Revenues of the milling industry are estimated at around $900 million.

Peru produces 1.3 MMT of flour per year. Of this flour 63 percent is used in the baking industry, 20 percent in pasta manufacturing, 12 percent in the cookies and crackers sector, and 5 percent for domestic use. About 70 percent of domestic flour is sold in traditional markets, with 20 percent sold in supermarkets and 10 percent sold through other distribution channels

Trade:

Peruvian wheat imports in CY 2010 totaled 1.67 MMT. The U.S. was the lead exporter with 44 percent of the market share, followed closely by Canada with just under 44 percent. Due to a smaller than expected crop and exporting taxes approved by the central government, Argentina was not a mayor wheat exporter to Peru in CY 2010, it only captured 5 percent of the Peruvian market. The average f.o.b. price of U.S wheat imported to Peru was $213 per MT compared to Canadian at $222 per MT and Argentinean $216 per MT.

Peru's wheat milling industry has become very sophisticated. The industry has evolved in the last 18 years from only buying HRW to importing many different types of wheat (such as soft, spring, white and DNS) for blending. The U.S. Wheat Associates has been instrumental in improving Peru's milling standards through its marketing and trade servicing programs.

Import Trade Matrix (Metric Tons)	
Commodity	Wheat
Time Period	CY 2010
Imports from:	
U.S.	737,863
Others	
Canada	733,933
Argentina	89,035
Total for Others	822,968
Others not Listed	109,129
Grand Total	1,669,960

Policy:

Wheat is imported into Peru duty free. The government of Peru does not have a specific program to promote wheat production. However, in recent years it has implemented credit and technical assistance programs to help producers improve their crops and somewhat fight high international commodity prices.

Commodities:

Corn

Production:

Corn Peru	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	532	562	550	580		600
Beginning Stocks	140	140	174	250		230
Production	1,544	1,655	1,600	1,670		1,750
MY Imports	1,500	1,782	1,600	1,460		1,500
TY Imports	1,500	1,782	1,600	1,460		1,500
TY Imp. from U.S.	722	800	0	850		850
Total Supply	3,184	3,577	3,374	3,380		3,480
MY Exports	10	10	10	10		10
TY Exports	10	10	10	10		10
Feed and Residual	2,700	2,982	2,800	2,800		2,900
FSI Consumption	300	335	300	340		350
Total Consumption	3,000	3,317	3,100	3,140		3,250
Ending Stocks	174	250	264	230		220
Total Distribution	3,184	3,577	3,374	3,380		3,480
1000 HA, 1000 MT						

Corn production in Peru is forecast at 1.67 MMT for MY 2010 (October/September), a slight increase compared to the 1.655 MT produced the previous year. Yellow corn production has been increasing steadily since international prices began rising. Increasing demand for poultry is driving this production boost.

There are several types of corn grown in Peru; the most important varieties are starchy corn (with production estimated at 257,000 MT in MY 2010), which is used directly for human consumption, and yellow corn (with production estimated at 1.19 MMT, which is primarily used in the animal feed industry.

Harvested area in MY 2010 is estimated at 300,000 hectares and 219,000 hectares for yellow and starchy corn, respectively. Yields are expected to be around 3.96 MT per hectare for yellow corn and 1.17 MT per hectare for starchy corn. However, yellow corn yields vary greatly depending on the production region and the technology level of producers. On the coastal region these yields have increased from 6.5 MT per hectare to 8.6 MT per hectare in the past eight years. The use of improved seeds and better cultural practices are the main drivers for this increase. In the rainforest, on the eastern slopes of the Andes, yellow corn yields drop to 2.1 MT per hectare due to poor soil and less developed producers.

Consumption:

Chicken has become a staple product in the Peruvian diet, with per capita consumption reaching about 32 kilograms per annum. Peru's 44 million chicken-per-month poultry market is the major user of yellow corn, with corn accounting for about 68 percent of the chicken feed. Yellow corn consumption is forecast at 3.05 MMT in MY 2011.

There are about 20 poultry operations in Peru, which control around 1,000 farms. The largest producer, San Fernando, controls about 35 percent of the market. Total market size for CY 2010 is estimated at $1.4 billion.

Informal producers (producers who are not legally established and do not pay taxes) are a major problem for the poultry sector in Peru. These producers, which account for about 25 percent of the poultry meat industry, are not able to import corn due the lack of appropriate registration with the tax authority and therefore rely solely on local corn. Informal producers are constantly undermining the industry profitability with their lower prices, which result from not paying taxes.

Trade:

Peru imported 1.9 MMT in CY 2010. With 1.05 MMT, Argentina continued to be the lead corn supplier to Peru in CY 2010. U.S. corn exports were 626,428 MT in CY 2010, a significant increase from the historic 280,000 MT due to the duty free TRQ granted in the U.S. – Peru Trade Promotion Agreement. Feed producers and large poultry operations prefer to use Argentine or Peruvian corn over U.S. corn. They claim that Argentine and Peruvian corn is harder and comes with less broken kernels. Average price of locally produced corn was around $267 per MT in CY 2010.

Post believes that alternative corn products such as DDGS have an interesting potential and should be promoted in this market. Post has worked closely with Peruvian authorities to lift import restrictions to DDGS. In late 2010 a first shipment of 5,000 MT of DDGS landed in Peru and is currently being tested in poultry feed.

Import Trade Matrix (Metric Tons)	
Commodity	Yellow Corn
Time Period	CY 2010
Imports from:	
U.S.	626,428
Others	
Argentina	1,051,897
Brazil	156,262
Paraguay	59,032
Total for Others	1,267,191
Others not Listed	2,261
Grand Total	1,895,880

Policy:

Import duties for corn are 9 percent on a c.i.f. basis. Corn is also subject to a variable levy applied under the Price Band System. The Price Band System is a variable levy that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. Under the U.S. – Peru Trade Promotion Agreement, Peru has committed to eliminate the price band system for all U.S. products.

The U.S. – Peru TPA, also establishes a duty free TRQ of 500,000 MT for U.S. corn, with annual increases of 6 percent and full duty free access in 12 years. As a result of the U.S. – Peru TPA, the GOP will implement a compensation program for corn producers. Though specific details of this program have not been announced yet, it is known that this will not consist of direct payments to individual producers, but rather a fund to promote competitiveness of the sector and improve its efficiency.

Corn production began increasing sharply in 1997 due to a GOP's import substitution program. This program, which granted tax benefits to livestock operations outside of Lima that used only local corn, has been successful so far. In some areas, particularly on the eastern slopes of the Andes, the few poultry producers are planting and purchasing local corn. On the coast, the third largest poultry producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest poultry producer in Peru has begun producing part of the corn it demands. This program and continued high international prices will encourage domestic production and, therefore, import substitution. The GOP does not have any direct subsidy or assistance program to encourage corn production. However, there has been some support through rotating credit funds. The Ministry of Agriculture continues to support an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

Commodities:

Rice, Milled

Production:

Rice, Milled Peru	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	409	381	395	350		400
Beginning Stocks	367	367	422	170		60
Milled Production	2,087	1,840	2,000	1,680		1,950
Rough Production	3,025	2,667	2,899	2,435		2,826
Milling Rate (.9999)	6,900	6,900	6,900	6,900		6,900
MY Imports	93	91	70	250		90
TY Imports	70	91	60	250		90
TY Imp. from U.S.	0	0	0	15		10
Total Supply	2,547	2,298	2,492	2,100		2,100
MY Exports	50	48	100	30		45
TY Exports	80	48	80	30		45
Consumption and Residual	2,075	2,080	2,100	2,010		2,000
Ending Stocks	422	170	292	60		55
Total Distribution	2,547	2,298	2,492	2,100		2,100
1000 HA, 1000 MT						

Rice production for CY 2011 is forecast to decrease 9 percent to 1.68 MMT (milled basis). Lack of rain in northern Peru delayed the planting season causing total harvested area to fall from 381,000 hectares to 350,000 hectares.

Rice in Peru is surface irrigated and dependent upon the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested April through July. Average price paid to producers for rice in CY2010 was $264 per MT of rough rice, 8 percent higher than the previous year.

Peru's most important rice producing areas are Lambayeque and Piura in the northern region and Arequipa in the south. Since the northern Peruvian coast is basically a desert rice production in that area has severely deteriorated the soil by salinization due to constant flooding. The government continues encouraging producers to move rice production to the

eastern slopes of the Andes, due to the lack of water on the coast. This effort has been successful in increasing rice production in this area, especially in the San Martin region. However, it has failed to move rice production out of the northern coast. Coastal rice producers have no incentive for changing crops, water is almost free and returns on investment are high, particularly with current international prices.

Average yields in CY 2010 were 7.3 MT of paddy rice per hectare, but some farmers have yields as high as 14 MT per hectare. Since most of the production is carried out by small producers, rice quality and yields vary greatly depending on input levels, which in turn depend on prices and economic conditions.

The Inter American Development Bank has developed a project in the San Martin region to promote a rice intensification system (SRI). The SRI goal is to give the plant more space to develop and obtain its nutrients. This system proposes 40 cm between plants (instead of the traditional 25 cm) and recommends planting one to two seeds instead of five. This project, which started two years ago, has already increased yields from 8 to 10 MT per hectare. There are about a thousand hectares under this system currently; its goal is to raise yields to an average of 14 MT per hectare.

Consumption:

Rice is a staple product in the Peruvian diet, with per capita rice consumption estimated at about 55 kilograms per year. Rice is traditionally sold in small markets, weighed out and bagged in 50 kg sacks. , With the expansion of supermarket chains in Peru in recent years several consumer habits, including the purchase of rice, have changed. There is a growing demand for prepackaged one-kilogram bags of rice. Higher quality rice, including U.S. rice, is generally marketed in this way.

Trade:

Rice imports into Peru in CY 2010 were 94,498 MT. The imported rice market in Peru continued dominated by Uruguayan rice with a market share of 95 percent. Rice imports from the United States remained limited despite the tariff advantage provided by the U.S. – Peru TPA. Reportedly, higher prices from the U.S. and a long standing relationship from a particular importer with an Uruguayan supplier, which includes advantageous credit conditions, are two reasons that explain why there is a clear market leader in Peru.

Some Peruvian importers are interested in purchasing paddy rice from the United States, which is currently banned for SPS reasons by SENASA (the Peruvian SPS authority). Peru has banned paddy rice for many years on the ground that the hulls could transmit pests that are not present in Peru. Khapra Beetle is the principal pest of concern to Peru. This is more likely to occur if the paddy rice is sold as seed rather than milled, but Peru claims it cannot lift this ban. Currently a pest risk assessment is being done which will hopefully result in elimination of the ban and additional sales of U.S. rice.

Import Trade Matrix (Metric Tons)	
Commodity	Rice
Time Period	CY 2010
Imports from:	
U.S.	3,338
Others	
Uruguay	90,036
Total for Others	90,036
Others not Listed	1,094
Grand Total	94,468

Policy:

Rice imports are assessed a 9 percent import duty on c.i.f. plus a variable levy applied under the Peruvian Price Band System. The Price Band System is an import tax that depends on international prices and ensures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is

imposed on certain "sensitive" products, is expressed in dollars per metric ton. Under the U.S. - Peru TPA, the Price Band System will be eliminated for products from the United States. It will remain in place for products from other countries, including MERCOSUR.

Under the U.S.-Peru TPA, U.S. rice will been granted a duty free TRQ of 72,000 MT, with annual increases of 6 percent and full duty free access in 17 years. Since Uruguay will not receive the same level of tariff preference for rice under the Peru-MERCOSUR trade agreement, this could be an opportunity for U.S. rice exporters to recover their market share in Peru.